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UNCLAS THE HAGUE 000879

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E.O. 12958 N/A

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SUBJECT: NETHERLANDS: RISING BUDGET DEFICIT RESULTS IN NEW
PUSH FOR SPENDING CUTS

REF: A) THE HAGUE 122 B) 03 THE HAGUE 2750

1. The Dutch government is reacting with outward calm to the news that the EU Commission will launch an "excessive deficit" procedure against the Netherlands for running a budget deficit in 2003 of 3.2 percent - 0.2 percent greater than allowed by EU Growth and Stability Pact (GSP) rules. Finance Minister Zalm told the press this weekend that he had expected the Commission to begin this procedure and declared that he would have been "disappointed" if the Commission had not acted as "all countries, including the Netherlands, must obey the rules."

2. The press reports that in reaction to the deficit figures, Zalm has tabled within the Cabinet a 3 billion euro package of supplemental budget cuts and tax increases. Opposition parties are objecting to additional government economizing and there is even some discontent within the coalition. A spokesman for the (largest coalition partner) Christian Democratic party remarked to the press that the budget was already severely stretched. D66, the smallest of the coalition parties, joined the government on a platform of increased spending for education and innovation and will try and resist any cuts in those areas.

3. Comment: Although party leaders bristle at the prospect of finding and negotiating additional spending cuts, they have no alternative but to do so. Absent further cuts, some estimate the deficit next year would rise to over 4 percent. Finding additional budget cuts will force the government to look inward as ministers fight to preserve their budgets. Although embarrassing to such an outspoken critic of other eurozone's deficit excesses as Zalm, the EU Commission's initiation of an excessive deficit procedure will strengthen his political clout in the Cabinet to fight for the cuts he advocates. The need to economize may promote implementation of needed reforms in social programs and benefit schemes but many of the proposed reductions reportedly tabled by Zalm to date would represent only short-term budget fixes (e.g., delaying additional educational spending, increasing health premiums)
Sobel